

VZCZCXRO8434
RR RUEHCHI RUEHDBU RUEHFK RUEHHM RUEHKSO RUEHLN RUEHNAG RUEHPB RUEHPD
RUEHYG
DE RUEHVK #0071/01 1760652
ZNR UUUUU ZZH
R 250652Z JUN 09
FM AMCONSUL VLADIVOSTOK
TO RUEHC/SECSTATE WASHDC 1164
INFO RUEHDX/MOSCOW POLITICAL COLLECTIVE
RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION COLLECTIVE
RUEHVK/AMCONSUL VLADIVOSTOK 1268

UNCLAS SECTION 01 OF 02 VLADIVOSTOK 000071

SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [PGOV](#) [RS](#)
SUBJECT: KREMLIN TO DARKIN: PROVIDE JOBS OR LOSE YOUR OWN

VLADIVOSTO 00000071 001.2 OF 002

¶1. President Dmitriy Medvedev recently tasked governors in the Russian Far East with settling unemployment and wage arrears locally without Kremlin help, and those who fail to control economic problems and related social unrest will be fired. Demonstrations resulting from the likely demise of the Russkiy Wolfram tungsten mining and processing plant in Primorye have brought new urgency to Governor Darkin's assignment of revitalizing the area's industrial base.

¶2. After the public unrest and demonstrations in the town of Pikalyovo in Leningradskaya Oblast over salary arrears and increasing unemployment in early June, President Dmitriy Medvedev warned governors that he would fire those who did not effectively deal with such situations. Following the worker protests in Pikalyovo, workers of the Russkiy Wolfram Company in Svetlogorie just north of Vladivostok sent a letter to Prime Minister Putin last week asking "do we need to block a federal highway to receive our salaries? We won't survive another hungry winter." Russkiy Wolfram is the only significant employer in the town of Svetlogorie, and its 240 workers have not been paid since last winter. In early June, employees received letters warning about imminent bankruptcy-induced layoffs. About 100 locals have been surviving on USD 95 to USD 125 monthly that they receive for performing community works.

¶3. Medvedev mentioned the problems in Russkiy Wolfram during a video conference with his Polpreds a week ago, saying he was concerned and had appointed Far East Polpred Victor Ishayev to monitor the situation. Ishayev in turn confirmed that "the situation in Svetlogorie is not easy" and that near-term profitability for Wolfram is extremely unlikely due to unusually low world market prices for tungsten. Tungsten producers throughout the country expected the federal government to purchase otherwise unsold inventory to create a stockpile for future machinery and defense production, but were disappointed by the Kremlin's recent decision not to do so.

¶4. In April, Prime Minister Putin roundly rebuked Primorye Governor Sergey Darkin at a meeting in Moscow for "not paying due attention to the Russkiy Wolfram mining complex in Svetlogorie," ordered him to improve living conditions in the town, and pushed him to finally locate the factory's owner, whose whereabouts had been unknown for several months. Darkin did indeed track down the owner and persuaded him to pay half of the back wages owed to workers. Darkin also authorized a loan of 6.5 million rubles for the company to pay the rest of the wages arrears. Each of the factory's workers received about USD 150 in additional aid from the regional budget. The krai also sponsored forty children from the town to spend a month at a summer camp.

¶5. Darkin later announced an agreement signed by Russkiy Wolfram's owner to allow government-owned heating supplier Primteploenergo to lease Wolfram's assets for a period of five years and restart factory operations. Primteploenergo has

significant problems of its own. A consulate contact said that the company barely has the funds to maintain its own assets and carries significant debt, not to mention a lack of experience in tungsten processing. Previous director, Sergey Vakhnin, abruptly abandoned his position and moved overseas -- presumably to escape impending charges for financial irregularities. Our contact also reported that Primteploenergo has been having its own troubles paying wages.

¶6. Darkin proposed establishing an additional processing facility at the Russkiy Wolfram factory -- an enterprise that would provide 50 to 80 jobs and produce 1,200 tons of tungsten trioxide annually -- and build two or three sawmills. These projects, according to Darkin, could be put into operation within two months. The main question is funding for the projects -- Primteploenergo has little liquidity and the Primorye government has no mandate to invest public funds into private enterprises.

¶7. Another obstacle to the quick resuscitation of the company is that the Federal Agency for Mineral Resources Management canceled the factory's extracting license in February because it had not extracted any ore from their concession since mid-2008. Russkiy Wolfram in turn filed an appeal in the Arbitration Court, but a new license cannot be issued until the case is adjudicated and a new auction for the tungsten deposit is held, which may take a year or more.

¶8. COMMENT. Governor Darkin's Kremlin-ordered strategy to save Svetlogorie includes such projects as geological prospecting in the field, and attracting more investments both from Western Russia and abroad "to build huge mining-extracting and timber processing complexes in the town." All these strategies are long-term and high-priced and are unlikely to bring relief to the residents of Svetlogorie any time soon. Moreover, not only did the company lose its permit to mine the local tungsten vein, known tungsten deposits in the area are nearing depletion.

VLADIVOSTO 00000071 002.2 OF 002

While the governor is expending effort and significant funds to keep the town afloat, Svetlogorie will likely not be able to rely on its tungsten production to keep residents employed. The company's troubles may be the weight that finally drags down Governor Darkin, a politician who has seemed to be unsinkable until now.

ARMBRUSTER